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SUBJECT: VICE PRIME MINISTER SHIMON PERES CONSIDERS "THE DAY AFTER" WITH CODEL PELOSI

Classified By: Ambassador Daniel C. Kurtzer for reasons 1.4 (b) and (d)

11. (C) Summary: In a meeting on March 23, Codel Pelosi and Vice Prime Minister Shimon Peres discussed the political atmosphere surrounding Israel's disengagement from Gaza; the economic forecast for Gaza the "day after" disengagement; the steps that the international community can take to ensure a positive economic future for Gaza; the separation barrier and settlements in the West Bank; and current political developments in Lebanon and Syria. End Summary.

12. (U) The delegation consisted of Representatives Nancy Pelosi, Henry Waxman, Darrell Issa, Linda Sanchez, Edward Markey, George Miller, Anna Eshoo, James McGovern, and congressional staff, and was accompanied by a poloff notetaker.

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The Day After  
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13. (C) Peres stated that the four-month period leading up to and completing Israel's disengagement from Gaza represents a unique political opportunity, but also brings to light the weaknesses in Israel's political system. He noted that, unlike the bipartisan United States Congress, the Knesset is made up of members from 12 parties, many of which have split into factions themselves. The parties that have supported disengagement have chosen to create a de facto coalition based on this one issue. For some, the costs of such a coalition are high and the expectations low. Peres emphasized that, faced with the threat of a referendum that could slow down or stop the process of disengagement, coalition members must mobilize their strength to get through the next four months without breaking. He added that while the primary focus of this coalition must be disengagement, this is also a government of construction, building up the Negev and Galilee regions of Israel as it pulls out from Gaza.

14. (C) Peres stressed that, in the political struggles over disengagement, we cannot ignore the "day after" and must work to ensure the long-term success of the process. The two main concerns remain how to achieve both security and a strong economy in Gaza. According to Peres, Palestinian President Mahmoud Abbas is faced with the challenge of confronting groups such as Hamas and Islamic Jihad not only militarily but also with ballots, and the possibility exists that Hamas will score some victories in July's PLC elections. Peres expressed Israel's surprise over the courage that Abbas has shown since his election in January, though he noted that Abbas still lacks the power and means to take all the actions and decisions necessary to achieve full security in Gaza.

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Gaza's Economic Prospects  
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15. (C) The security of Gaza and of Israel in the long run depends also on improving what Peres termed the "terrible" economic situation that exists in Gaza at present. Peres noted that those Palestinians who still go hungry are not impressed by peace conferences. The 1.5 million Palestinians in Gaza face economic woes that are immediate, while many of the solutions to these problems are slow to come. Peres said he worries about the gap between the immediacy of the problems and the pace of the solutions. In this gap, he said the possibility exists of Hamas gaining support in Gaza through its social and charitable services that deal with the immediate economic obstacles facing individuals and families.

16. (C) Peres called for addressing Gaza's economic afflictions up to and during disengagement as well as on "the day after," and finding solutions for immediate as well as long-term economic problems. He proposed speeding up the movement of goods as one short-term solution, making the passage of goods to and from Gaza as swift as possible. The World Bank has pledged \$70 million of the \$140 million required for this project, and Israel will provide the other half.

17. (C) Peres also suggested the creation of a social security program as another short-term economic boost for Gaza. Such a program would provide \$100 per month for

100,000 families in Gaza. The European Union, and Canada have pledged most of the \$120 million needed for one year of such a program, which Peres contends will help alleviate poverty among Gazans in a tangible way. Peres said he has also had conversations with the Indian special envoy to the region on further assistance. Working out a way for Gazans to productively use the buildings in former Israeli settlements after disengagement would also help increase employment and economic opportunities in Gaza.

#### ----- Gaza After Disengagement -----

18. (C) Peres pointed to three methods of improving Gaza's economy after disengagement: the creation of industrial parks, such as those in Jordan; privatization; and building a tourist infrastructure. Peres noted that Qualified Industrial Zones such as those built with the aid of Israel and the United States now produce \$1 billion in exports and employ 40,000 people in Jordan, and he expressed hope that QIZs might also be in the future for Gaza and the West Bank. American companies have played an important role in Jordan, helping to modernize the country's educational system. Peres envisioned U.S. companies building branches in the West Bank and Gaza and achieving similar "remarkable" results. American companies could also become the backbone of Gaza's tourism industry, and officials have already approached the American hotel chains Radisson and Starwood with ideas for creating tourism in Gaza.

19. (C) When asked whether unilateral withdrawal from Gaza is helpful in achieving peace in the long term, Peres remarked that unilateral disengagement was not his first choice. In a perfect world, he said, it should have been a negotiated, bilateral withdrawal. Highlighting the Labor party's minority status in the Knesset, Peres said he preferred a mediocre step in the right direction backed by a majority over a grand idea with no support or hope of implementation. Some of the great mistakes of the past, such as Israeli settlement building and Palestinian terrorism, were unilateral. Hopefully, Peres said, when these unilateral mistakes are rectified unilaterally, the two sides can forget the past and come together.

#### ----- Settlements and the Security Barrier -----

10. (C) Addressing the question of whether Israeli settlements and the security barrier make a Palestinian state impossible, Peres stated that the security barrier was originally intended as a method of ensuring security for Israeli citizens. The process of building the barrier whetted some political appetites for more land, but the barrier has since moved closer and closer to the Green Line. At present, the intended course of the barrier will leave only 5.5 percent of the West Bank on the Israeli side, more or less equivalent to the amount discussed in President Clinton's proposal at Camp David in 2000. A Palestinian state is not dependent on whether or not there is a wall, Peres chided, but whether or not there is democracy. Palestinians have never governed themselves, and the Palestinian state will be their first experience in true governance.

11. (C) As for the settlements, Peres dismissed estimates of up to 200,000 Israeli settlers living in the West Bank, stating that this number most likely includes Israelis in Jerusalem and that, at most, there are 60,000 settlers in the West Bank. Eventually, islands of Israeli settlements will remain, taking only 3-4 percent of land in the West Bank.

#### ----- Regional Security -----

12. (C) Asked about the sustainability of economic relationships built within the region, Peres took the opportunity to put the Israeli-Palestinian conflict within the context of what he termed the larger conflict between Islam and the West. While terrorists protest against modernization, he said, they have no message of their own. However, a wind of change can be seen in Muslim countries such as Turkey that have embraced modernity, in Jordan and Egypt, with their slow but sure political reforms, and in Syria, which now faces powerful demonstrations in Lebanon and warnings from the United States and other nations that Syria understands are not empty threats.

13. (C) At this point, Peres stated, Syria is no longer a military consideration because the Syrian economy does not permit the country to buy modern weaponry, and the Lebanese have begun to ask why Syria is still in Lebanon. Syria has taken advantage of its military presence for the economic exploitation of Lebanon. If Lebanon can rid itself of Syria and Hezbollah, it can become an independent, tolerant

democracy and society. If not, it will become a Shiite state.

14. (C) Codel Pelosi did not have an opportunity to clear this cable.

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